

Natural Gas Market Indicators



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Reported Prices – crude prices remained above \$70 on the exchanges with Brent above \$79 per barrel and West Texas Intermediate over \$71 for much of May. However, by May 29 the July contracts for oil had fallen about \$4 per barrel for both Brent and WTI. July contracts for Henry Hub are trading at \$2.96 per MMBtu. Looking ahead, the forward strip for natural gas pricing is finally beginning to see \$3 in the 2018–2019 winter curve, but the longer view after March 2019 through summer 2021 contracts priced below \$3 per MMBtu.

Weather – the year’s first Atlantic basin storm, Alberto, dumped heavy rain on the southeastern US in late May, a little ahead of the official start of hurricane season. The first four weeks of cooling degree day data from the National Oceanographic and Atmospheric Administration (NOAA) point to conditions 28.2 percent warmer than normal in May coming after an extended cool period in April for much of the country) and 8.7 percent warmer than this time last year. The Pacific and East North Central portions of the country have been cumulatively cooler than normal this May, but all other regions of the lower-48 states have been warmer. In fact, New England has been 300 percent warmer early in the cooling season.

Working Gas in Underground Storage – the storage build for the week ending May 11 resulted in the season’s first triple-digit injection of 106 Bcf. However, the two following injection weeks proved relatively tepid at 91 Bcf and 96 Bcf respectively, raising working gas inventories to 1,725Bcf. Healthy injections, yes, but underground storage levels are still 31 percent lower than last year at this time and 23 percent below the five-year average. The Midwest region is the lowest at this point in the injection season compared to normal (and last year) at 34.5 and 48.5 percent lower, respectively. Still, the injection pace is above 11.5 Bcf per day, which is where it needs to be to refill inventories to 3.5 Tcf by the end of the season.

Natural Gas Production – daily dry natural gas production has once again reached record levels. On Memorial Day, lower-48 dry gas production flows topped 78.9 Bcf—another all-time high. Overall for the month, production has beenp robust. Average daily dry natural gas production in May was 78.2 Bcf, a strong 7.3 Bcf more than the average in May 2017.

Shale Gas – data from the Energy Information Administration notes that US electric power consumption of fossil fuels is at the lowest level since 1994. The rise of low-cost shale gas has induced a switch from coal to natural gas for power generation. Because natural gas power generation is typically much more efficient than coal, the declines in coal consumption have been larger than the increases in natural gas used for power production. Other factors are at work, including flat electric power demand and the increase in wind and solar production. The consequence of all of these factors is that carbon dioxide emissions from the power sector are at 30-year lows.

Rig Count – rig counts are on a tear. After crossing above 1,000 total rigs in operation during early April, the number of oil & gas rotary rigs is now 1,059 for the week ending May 25, according to Baker Hughes. Oil drilling represents most of the incremental activity during the past two months, having gained 51 rigs between April 6 and May 25; natural gas rigs gained four during that period. Of those 55 new rigs in operation, 33 are in the Permian, reflecting what a behemoth this Texas and New Mexico oil play has become.

Pipeline Imports and Exports – the big Canadian pipeline news is not in the natural gas space, but oil. The Canadian government announced it would buy Kinder Morgan’s Trans Mountain pipeline for \$3.5 billion in a bid intended to save the project. The Canadian government is worried about the impacts to exports of oil sands bitumen from Alberta, and thus the nation’s economy, if the pipeline project was abandoned, according to reporting from SNL. The pipeline expansion project had led to a contentious regulatory battle between British Columbia, Alberta, the federal government, and many stakeholders. Back to natural gas: Canadian pipeline exports to the US have averaged about 5.6 Bcf per day in May. US exports to Mexico have averaged about 4.4 Bcf per day this month.

LNG Markets – approval from the Federal Energy Regulatory Commission (FERC) has been granted to Cheniere at Sabine Pass to begin commissioning procedures for Train 5 at the facility. Commercial operation is not expected until the second quarter of 2019, however. Across the pond, natural gas prices in the United Kingdom remain elevated after rising at the end of winter. Futures contracts at the National Balancing Point currently trade for \$7.65 per MMBtu. Meanwhile, volumes directed to feedgas for LNG exports have ranged between 2.6 and 2.9 Bcf per day for the last week of May. Since January, feedgas volumes have averaged 3.1 Bcf per day and during May is up 49 over 2017.

Natural Gas Market Summary – NOAA’s three-month outlook for temperatures shows above-average probabilities for higher-than-normal temperatures for much of the lower-48, including Southwest, Southeast, and the Northeast. Higher temperatures and relatively low natural gas prices suggest the possibility of strong natural gas burn for power generation. Storage operators will be working to refill too during this time, and market observers will be looking at how temperatures and power burn will affect injection rates. LNG feedgas and exports to Mexico will continue to provide a “baseload” of natural gas demand, especially in the South, though the near-term upside may be limited given the construction schedule of pipelines and export terminals. Dry gas production remains at or near record levels, and new pipeline projects will help continue to bring new supplies to market. And finally, the wildcard: oil production. Oil-directed drilling rigs continue to climb, though reports suggest limitations arising due to constrained takeaway capacity. The question then is how much will associated gas production contribute to incremental supplies?

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